

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 IGA-02 L-03 H-03 PA-04 PRS-01 USIA-15

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PASS TREASURY AND AID

E.O. 11652: N/A

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SUBJECT: KHMER DEBT RESCHEDULING

1. SUMMARY: KHMER DEBT CONFERENCE MEETING IN PARIS NOVEMBER 8 FAILED AGREE ON RESCHEDULING \$4 MILLION PLUS IN REPAYMENTS DUE IN 1974, OF WHICH ABOUT 90 PERCENT TO FRANCE AND BALANCE TO GERMANY. CREDITORS REFUSED ENTERTAIN KHMER REQUEST FOR RELIEF ON 100 PERCENT PRINCIPAL AND INTEREST, AND KHMER DELEGATION HAD NO FLEXIBILITY DEVIATE FROM THAT POSITION. CHAIRMAN SET AS AIM SLIGHTLY SWEETENED TERMS COMPARED TO 1973 RESCHEDULING, BUT THIS DEPENDS UPON KHMER DELEGATION GETTING NEW INSTRUCTIONS. IF AGREEMENT COMES INTO SIGHT, CHAIRMAN WILL RECONVENE CONFERENCE IN WEEK NOVEMBER 19 FOR CONCLUSION.

2. KHMER DEBT CONFERENCE MET IN PARIS ON NOVEMBER 8. NEBOT, ASSISTANT DIRECTOR OF FRENCH TREASURY (EXTERNAL BILATERAL RELATIONS), PRESIDED. THREE-MAN KHMER DELEGATION HEADED BY
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KIM NGOUON TRACH. FRANCE AND GERMANY, ONLY TWO WESTERN COUNTRIES

TO WHICH KHMER REPUBLIC HAS BILATERAL DEBT PAYMENTS TO MAKE IN 1974, ATTENDED AS "PARTICIPATING COUNTRIES." U.K., ITALY, JAPAN AND IMF WERE REPRESENTED BY OBSERVERS. PURSUANT OCTOBER 26 INSTRUCTIONS FROM TREASURY, MCGREW ATTENDED AS OBSERVER FOR U.S.

3. IN MEETING OF CREDITORS ONLY, CHAIRMAN NEBOT ANNOUNCED THAT DUE TO LAST MINUTE COUP DE THEATRE BY CAMBODIANS, IT WOULD NOT BE POSSIBLE, AS HOPED, CONCLUDE NEGOTIATIONS IN ONE-DAY SESSION. WHILE FRANCE AS PRINCIPAL CREDITOR (90-92 PERCENT OF PAYMENTS FALLING DUE IN 1974) WOULD HAVE BEEN PREPARED TO SWEETEN SLIGHTLY 1973 TERMS (RESCHEDULING OF 65 PERCENT OF PRINCIPAL AND INTEREST, 3 PERCENT CONSOLIDATION INTEREST RATE, GRACE PERIOD OF TWO YEARS FOLLOWED BY REPAYMENT PERIOD OF 8 YEARS), KHMER AUTHORITIES HAD WITHIN LAST FEW DAYS PRESENTED FRENCH EMBASSY IN PHNOM PENH WITH REQUEST FOR 100 PERCENT RESCHEDULING OF PRINCIPAL AND INTEREST, CONSOLIDATION INTEREST RATE OF 1 PERCENT, 5-YEAR GRACE PERIOD, BOLLOWS BY 10 YEARS FOR REPAYMENT. NEBOT SAID HE HAD THE DAY BEFORE TOLD KHMER DELEGATION THEIR REQUEST COULD NOT BE BASIS FOR 1974 RESCHEDULING AGREEMENT, BUT THEIR INSTRUCTIONS LEFT THEM NO LATITUDE TO BACK DOWN. NEBOT CITED AS HIS PRINCIPAL REASON UNFORTUNATE PRECEDENT 100 PERCENT RESCHEDULING WOULD CREATE, AND OPINED THAT FOR THIS REASON ALL CREDITOR COUNTRIES HAD AN INTEREST IN SEEING FRANCE INSIST ON REPAYMENT BY CAMBODIA OF SOME PART OF 1974 MATURITIES. FURTHER, IF CAMBODIANS PERSISTED IN THEIR EFFORTS TO OBTAIN THESE UNACCEPTABLE TERMS, THEY WOULD SIMPLY HAVE TO DEFAULT. IN SUCH CIRCUMSTANCES, FRANCE COULD NOT GO ON EXTENDING TO THEM SHORT-TERM CREDITS (6 MONTHS TO 3 YEARS) WHICH HAD BEEN FINANCING CONSIDERABLE VOLUME OF FRENCH EXPORTS TO CAMBODIA (SPARE PARTS, PHARMACEUTICALS AND LIGHT EQUIPMENT).

4. FRENCH DELEGATION THEN INDICATED THAT TOTAL PAYMENTS DUE FRANCE IN 1974 WERE 16,214,000 FRANCS (12,330,000 FRANCS PRINCIPAL PLUS 3,884,000 HFRANCS INTEREST). GERMANS OFFERED NO FIGURES RE AMOUNTS DUE THEM, BUT ON BASIS NEBOT'S STATEMENT THAT FRANCE ACCOUNTS FOR ABOUT 90 PERCENT OF TOTAL, GERMAN FIGURE MUST BE ABOUT \$300,000-400,000. NEBOT CONFIRMED THAT AS IN PREVIOUS YEARS, PAYMENTS DUE ON CREDITS GRANTED WITHIN FRAMEWORK OF MULTILATERAL PREK-THNOT PROJECT WERE EXCLUDED, AS WELL AS ANY PAYMENTS DUE PURSUANT TO 1972 AND 1973 CONSOLIDATION AGREEMENTS.

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5. IMF REPRESENTATIVES DESCRIBED EXCEEDINGLY DIFFICULT ECONOMIC SITUATION IN CAMBODIA AND CAUTIONED NEBOT AGAINST ATTEMPTING TO EXTRACT TOO MUCH FROM KHMER DELEGATION. THEY POINTED OUT THAT SINCE PAYMENTS WOULD BE CONTINUING ON PREK-THNOT AND PREVIOUS CONSOLIDATION DEBTS, CAMBODIANS WOULD BE PAYING "SOMETHING" AND COULD NOT, THEREFORE, REALLY BE CONSIDERED IN DEFAULT. UNDER QUESTIONING OF IMF REPRESENTATIVES, NEBOT BROUGHT OUT POINT THAT

TOTAL CAMBODIAN IMPORT PROGRAM FOR 1974 WAS \$60 MILLION. HE CONCLUDED THAT IN THIS CONTEXT \$1 MILLION IN DEBT REPAYMENTS WAS NOT TOO HIGH A PRICE FOR ASSURING "INTERNATIONAL MORALITY" OF CAMBODIA.

6. WHEN IMF REPRESENTATIVES OBSERVED THAT IT WOULD NOT BE CAMBODIA, BUT CONTRIBUTORS TO STABILIZATION FUND, WHO WOULD BE IN EFFECT PAYING THE \$1 MILLION, NEBOT WAS LED TO REPEAT ARGUMENTS WE HAVE HEARD IN PREVIOUS YEARS. BY DEBT RESCHEDULING, FRANCE WAS MAKING AN EFFORT COMPARABLE TO THAT OF ESF DONORS, AND PROBABLY A GREATER EFFORT THAN IF FRANCE JOINED DONORS BUT GOT REPAYMENT OF ITS DEBTS ON ORIDINAL SCHEDULE. HE SAID HE HOPED DONORS, PARTICULARLY U.S., WOULD KEEP THIS IN MIND.

7. NEBOT CONCLUDED CREDITORS MEETING BY SAYING THAT HIS MAJOR EFFORT WOULD BE TO GET CAMBODIANS DOWN FROM THEIR 100 PERCENT REQUEST. QUITE CONFIDENTIALLY, HE COULD INDICATE THAT FRANCE WAS PREPARED TO GO TO 75 PERCENT RESCHEDULING OF 1974 PAYMENTS OF PRINCIPAL AND INTEREST AND TO STRETCH OUT REPAYMENT PERIOD TO 12 YEARS. HOWEVER, THIS WAS ABSOLUTE MAXIMUM, PARTICULARLY BEARING IN MIND THAT THERE WAS NO POSSIBILITY OF IMF STANDBY, WHICH WAS NORMALLY CONDITION SINE QUA NON FOR ANY RESCHEDULING. IN ANSWER TO QUESTION FROM IMF REP, HE SAID HE COULD NOT SEE REDUCING CONSOLIDATION INTEREST RATE BELOW 3 PERCENT, WHICH WAS ALREADY VERY GENEROUS COMPARED TO AGREEMENTS WITH MOST OTHER COUNTRIES. (NEBOT MADE A SPECIAL POINT OF EMPHASIZING THAT DELEGATIONS AND OBSERVERS SHOULD NOT REVEAL 25 PERCENT FALLBACK POSITION TO KHMER DELEGATION, AND IT IS ESSENTIAL THAT THIS POINT BE CLOSELY HELD.)

8. IN PLENARY SESSION WITH CAMBODIANS, TRACH EMPHASIZED EXCEEDINGLY DIFFICULT KHMER ECONOMIC SITUATION AND MAINTAINED THIS JUSTIFIED EXCEPTIONAL TREATMENT WHICH KHMER AUTHORITIES HAD LIMITED OFFICIAL USE

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REQUESTED OF 100 PERCENT RESCHEDULING OF PRINCIPAL AND INTEREST.

NEB

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Disposition Comment: 25 YEAR REVIEW
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